



November 1, 2005

The Honorable Bill Nelson
United States Senate
716 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Nelson:

AARP supports your amendment to the fiscal year 2006 Budget Reconciliation bill to exclude the cost of the payment increase for physicians from the determination of the Medicare Part B premium.

Medicare beneficiaries already spend a sizable portion of their income on health care. It is estimated that in 2004, older beneficiaries living in the community spent an average of \$3,725 out-of-pocket, or 23 percent of their income, on health care costs. Over the last three years, Medicare beneficiary premiums have increased 50 percent, or roughly \$30 a month. The Social Security cost of living adjustment (COLA), by contrast, has increased only about 10 percent over that time. Part B premiums will increase by another 13 percent in 2006.

The Congressional Budget Office estimates that the physician payment update included in the reconciliation bill will cost nearly \$11 billion over five years. Fully \$2.7 billion of that amount will be passed onto beneficiaries in the form of higher premiums. Even with some of the offsetting Part B spending reductions included in the bill, beneficiaries will still pay over \$1 billion in higher premiums in 2007 to finance the increase in physician reimbursement. Furthermore, beneficiary coinsurance will also increase due to higher physician reimbursement.

Any increases in out-of-pocket costs cannot be looked at in a vacuum. The projected increase in 2007 Part B premiums and coinsurance will come on top of the large premium increases that are already anticipated. If Part B premiums continue to escalate, many beneficiaries will find it difficult to pay for the medical services they need.

AARP believes your amendment is necessary to ensure health care does not become increasingly unaffordable. We look forward to working with you and your colleagues on both sides of the aisle to protect Medicare beneficiaries from burdensome increases in out of pocket health care costs. If you have any further questions, please feel free to contact me, or have your staff contact Andrea Price of our Federal Affairs staff at 434-3770.

Sincerely,

A handwritten signature in cursive script that reads "David P. Sloane".

David P. Sloane
Sr. Managing Director
Government Relations and Advocacy